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KOREA, JAPAN, TAIWAN (FORMOSA),
AND THE PHILIPPINES

REPORT
ON
UNITED STATES FOREIGN ASSISTANCE
PROGRAMS

PREPARED AT THE REQUEST OF THE
SPECIAL COMMITTEE TO STUDY THE
FOREIGN AID PROGRAM
UNITED STATES SENATE

BY
DR. JOHN A. HANNAH
PRESIDENT, MICHIGAN STATE UNIVERSITY

(Pursuant to S. Res. 285, 84th Cong., and
S. Res. 35, 85th Cong.)

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(Created pursuant to S. Res. 285, 84th Cong., 2d sess., and S. Res. 35, 85th Cong., 1st sess.)

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¹ The executive committee served during congressional adjournment.

PREFACE

By Theodore Francis Green, Chairman, Special Committee to Study the Foreign Aid Program

The Special Committee to Study the Foreign Aid Program was created under the authority of Senate Resolution 285, agreed to July 11, 1956. The committee is composed of all members of the Committee on Foreign Relations and the chairman and ranking minority member of the Senate Committee on Appropriations and the Senate Committee on Armed Services.

Pursuant to the terms of the resolution, the special committee was instructed to make—

exhaustive studies of the extent to which foreign assistance by the United States Government serves, can be made to serve, or does not serve, the national interest, to the end that such studies and recommendations based thereon may be available to the Senate in considering foreign aid policies for the future.

In the conduct of its study the committee was also instructed to make—

full use * * * of the experience, knowledge, and advice of private organizations, schools, institutions, and individuals.

It was authorized to enter contracts for this purpose and not to exceed \$300,000 was made available to meet the expenses of the committee.

Since the special committee was instructed to transmit the results of its study to the Senate not later than January 31, 1957,¹ and in view of the shortness of time available for its work, a small executive committee was constituted to supervise the detailed research work for the full committee. The executive committee upon instructions from the full committee outlined a number of research projects to be undertaken by private institutions in the United States.

In order to supplement those research projects, the executive committee made arrangements with ten individuals to conduct "on-the-spot" surveys of foreign aid programs in different regions of the world. The individuals concerned were asked to submit a report dealing with—

the fundamental aims of American foreign policy in the area visited, the extent to which those aims are valid in terms of the national interest, the effectiveness or ineffectiveness of the foreign aid programs in advancing those aims, and the ways in which the interests of the United States might be promoted by changes in the programs now in progress or proposed for the future.

¹ By S. Res. 35, adopted by the Senate on January 30, 1957, the time for reporting by the special committee was extended to June 30, 1957, and \$75,000 of the \$82,000 left over from the original fund was made available for the work of the committee.

Listed below are the regions of the world which were covered by the "on-the-spot" surveys and the individuals who undertook the assignments:

1. Former Ambassador Norman Armour: Countries—Greece, Turkey, and Iran.
2. Mr. Hamilton Fish Armstrong, editor of Foreign Affairs: Countries—Lebanon, Iraq, and Jordan.
3. Former Ambassador David K. E. Bruce: Countries—Peru, Chile, Argentina, Uruguay, and Brazil.
4. Former Ambassador Jefferson Caffery: Countries—Portugal, Spain, France, and England.
5. Dr. John A. Hannah, president, Michigan State University: Countries—Korea, Japan, Formosa, and the Philippines.
6. Mr. William Randolph Hearst, Jr., president, Hearst Consolidated Publications, Inc., and editor in chief of Hearst Newspapers: Countries—Norway, Denmark, and Western Germany.
7. Mr. Clement Johnston, chairman of the board of the United States Chamber of Commerce: Countries—Burma, Thailand, Cambodia, Indonesia, Laos, and Vietnam.
8. Dr. Lewis Webster Jones, president, Rutgers University: Countries—Pakistan, India, Afghanistan, and Ceylon.
9. Mr. James Minotto, former MSA Chief in Portugal: Countries—Cuba, Haiti, Dominican Republic, Venezuela, Panama, Costa Rica, Nicaragua, Honduras, El Salvador, Guatemala, and Mexico.
10. Mr. Allan B. Kline, former president, American Farm Bureau Federation: Country—Yugoslavia.

This report, the fifth of the "on-the-spot" survey reports to be submitted to the special committee, was prepared by Dr. John A. Hannah, president, Michigan State University, who studied the foreign aid programs in Korea, Japan, Okinawa, Formosa, and the Philippines.

I anticipate that the special committee may wish to make this report the subject of a public hearing. In that way it will be possible for committee members to test the soundness of the conclusions and recommendations of the report.

This is a report to the Special Committee to Study the Foreign Aid Program, and does not necessarily reflect the views of the committee or of any of its members.

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LETTER OF TRANSMITTAL

MICHIGAN STATE UNIVERSITY,
East Lansing, Mich., February 1, 1957.

*To the Chairman and Members of the Special
Committee to Study the Foreign Aid Program:*

Attached is the report of my study of foreign aid operations in Japan, Korea, Taiwan, and the Philippines.

If the committee decides to call me to present this report or to answer questions about it, it will be helpful if you will give me as much notice as possible so that I can arrange my schedule here.

This was a very interesting experience, and I hope that my conclusions and recommendations may be of interest and value to the Committee.

Sincerely,

JOHN A. HANNAH,
President.

VII

KOREA, JAPAN, TAIWAN (FORMOSA), AND THE PHILIPPINES

I. SUMMARY

On the survey undertaken of foreign aid programs in the Far East, I was accompanied by Dr. Howard S. Piquet, senior specialist in international economics of the Legislative Reference Service of the Library of Congress, and Dr. Emory W. Morris, president of the Kellogg Foundation.

The countries surveyed were Japan, Korea, Taiwan, and the Philippines. The relative importance of these countries in the foreign aid program is indicated by the fact that they are currently receiving over \$1.3 billion annually or more than one-quarter of the monetary foreign aid being granted by the United States. In addition, some time was spent in Okinawa, Hong Kong, Pakistan, and Cambodia and a more extended period in South Vietnam.

Approximately 1 week was spent in each country covered in this report. Such a time limitation ordinarily would present opportunity for little more than a cursory examination of the situation. However, arrangements were made so that it was possible to meet and talk with large numbers of government and military leaders, both nationals of the countries and Americans stationed in those countries. These conversations were reinforced with a large amount of factual and statistical material upon which the survey team could draw. In addition, numerous informal conversations were held with nonofficial Americans and nationals in the countries visited.

One day was spent in Honolulu with Admiral Stump, the commander in chief of United States Pacific forces, and his staff, and 1 day in Tokyo with General Lemnitzer, commander of our Far East forces, and his staff. It was felt that an overall view of the military situation and implications in this part of the world was essential for an adequate appraisal of our foreign aid program.

A. METHOD OF PROCEDURE

The procedure in each country was about as follows: Formal briefings by American military and Government personnel were arranged, reviewing the military, economic, and political conditions in that country. Members of the survey team then met with selected Government leaders, who were encouraged to speak plainly in voicing their opinions concerning the value of our several foreign aid programs, the efficiency with which they were being administered, and the unmet needs of the recipient countries.

These official opinions were supplemented with information gained in private conversations with American businessmen, newspaper corre-

spondents, missionaries, and private citizens of the countries visited. Visits were made to industrial and agricultural projects, power developments, shipyards, mining projects, schools, hospitals and health projects, and to military installations.

These experiences, though less extensive than desirable, were sufficiently broad to enable the team to arrive at certain conclusions. Those conclusions are presented here with the realization that a longer inquiry and more intensive study might cause their modification. However, I am of the opinion that these conclusions are basically sound and valid.

B. GENERAL ASSUMPTIONS

The team undertook its mission with certain general assumptions in mind.

The first general assumption was that the United States has only one real enemy in the world—international communism—and that aid is extended to foreign countries in support of a national policy, first, to halt the spread of communism, and second to bolster the internal strength of countries which stand with us as bulwarks against this menace to democratic ideals and world peace.

It is probable that international communism has three objectives in its drive for world domination. The first, a preponderance of manpower, has been achieved through the conquest of mainland China. The second—access to relatively unlimited raw materials—could be achieved through the conquest of southeast Asia. The third—control of an overwhelming industrial production potential—could be achieved within a relatively short time only by the conquest of Japan and its highly developed industrial complex and vast reservoir of skilled manpower.

These objectives have been sought through both military and less extreme measures. But it is plain that a realistic appraisal of American foreign aid in the Far East must be made against this background. Although it is conceivable that we would be granting modest amounts of technical assistance in this area even if it did not have the military and strategic importance that it does, we would not be giving aid in the amounts we are now giving. It is essential to the survival of our country that the arc of defense in the Pacific hold firm.

To stress the necessity of viewing foreign aid in a military context does not mean, however, that economic, political, and psychological considerations are not of prime importance. They, too, must be taken into full account and treated with all of the intelligence and ingenuity at our command as a means of combating Communist infiltration and influence.

The second general assumption was that the United States is committed to a long-range program of assistance in the Far East, and that the basic question was not whether aid should be continued, but whether it was accomplishing what was intended, and how its administration might be improved.

Such an assumption is inescapable, in view of the vital strategic importance—both militarily and politically—of Japan, Korea, Taiwan, and the Philippines.

What happens in this area of the world will affect profoundly the future of the United States. The Republic of the Philippines is a nation of our own creation, and hence is our "showcase" in the Pacific.

Both Korea and Taiwan are on the firing line in what is, to speak realistically, a state of suspended war. It is essential to remember that what is done in and by these countries is largely the responsibility of the United States. Japan is unique among the countries of the Orient. She is far advanced industrially, so much so that she has properly been called "the Britain of Asia." Because of this fact, and because of her strategic location, it is essential that Japan remain in the family of free nations.

The third general assumption is that our objective is to help other nations to help themselves and that we seek to give the peoples of the Far East, through their governments, that hope, that prospect of improving their lot in life, which is in the final analysis one of the strongest defenses against Communist enticement. It would not be enough to defend them with our own troops and planes and ships, to feed them with our own food, to support them with our own money. In fact, that course could defeat the overall objective. They are proud people with a great capacity for work, with ability to do things for themselves if they are given a decent chance. It is believed that those who have known Communist terror through personal experience will not fail us and the free world if we provide them with the opportunity to work out their own safety and salvation. That, in essence, is all they should ask; that, in total, is all we should give.

C. GENERAL FINDINGS AND RECOMMENDATIONS

The findings and recommendations below apply generally, except where specifically noted, to the four countries: Japan, Korea, Taiwan, and the Philippines. Observations applying to certain countries only, and recommendations arising from them, will be found farther on in the report.

1. The implementation and administration of the foreign aid program of the United States in the Far East merit approval, in general, and special commendation in many instances. It would be naive to expect, or to report, that the program has been uniformly successful, that no mistakes have been made, and that we should simply go on doing more of the same things. But only an unfriendly critic can doubt that, when viewed altogether, the foreign aid projects are giving the American people a reasonable return on the money being invested in them.

It is recommended that the programs of military assistance, defense support, economic aid, and technical cooperation be continued, subject to constant review and periodic intensive scrutiny. In their concept and general outline, they represent a powerful force working for the benefit of both the American people and the people of the Far East. However, the program in its various aspects must be kept flexible and readily adaptable to changing conditions.

2. It was observed that traditional American impatience and perhaps a greater sense of urgency on our part have sometimes operated to hold cooperation by the foreign governments to a level below that which is desirable. It should be obvious that a high degree of local participation in the analysis of problems, in the making of plans, and in the execution of programs is an essential to good feeling among allies and friends. Cooperation, not coercion, is the tack which must be taken if enduring relationships are to be estab-

lished. Consultation with local leaders and honest consideration of their recommendations and aspirations should be encouraged to a far greater degree as the program continues.

3. One of the greatest handicaps to the program and the personnel concerned is the tremendous lag in time between appropriations by the Congress for foreign aid and the allocation of funds to the areas concerned. We were in the 5th and 6th months of the current fiscal year at the time this survey was made, and in not 1 of the 4 countries had those responsible for either the military or economic programs been informed what funds were available within the fiscal year for financing work for which they are responsible.

Such a record is inexcusable and intolerable, and must be improved substantially if the program is to gain momentum.

Red tape, paper work, or whatever the cause, the result is that neither the American personnel involved nor the officials of the foreign governments concerned can plan wisely, budget frugally, or perform efficiently.

A related weakness in the current system is the provision in the law that not more than 20 percent of an annual appropriation can be spent within the last 2 months of the fiscal year. When allocations are not made until 6 months or more of the fiscal year have elapsed, the result is that there is a great flurry of spending in the 4 months or less remaining before the deadline. Obviously, this creates many opportunities for waste based on decisions made too hastily, not because of inattention or inefficiency on the part of those in the field, but because of unreasonable and unrealistic restrictions upon their freedom to act in an orderly manner.

It is urgently recommended that Congress seek means of expediting the allocation of appropriated funds to the field in the interest of more efficient operation in view of the legal requirement which, coupled with these unjustifiable delays, has the effect of forcing personnel in the field to commit 80 percent of their allocated funds within one-third of the fiscal year.

4. Related to the situation described above is that created by the reluctance of administrators in Washington to grant a reasonable degree of autonomy to administrators overseas. It is ridiculous to require that capable and experienced personnel in the field submit the details of each specific project to Washington for approval. Few, if any, persons thousands of miles away can exercise judgment superior to those of competent personnel immediately on the scene. The time-waste factor alone argues for granting greater autonomy, within specified limits, to those responsible for operations in the field.

It is recommended that Congress insist on eliminating to the greatest extent consistent with the national interest that portion of the process of studying and judging specific projects now being performed by departments in Washington, and on the granting of a greater degree of autonomy for those on the operational level.

5. To accomplish the desirable objective set forth in (4) above, it would be necessary to effect some changes in current personnel policies, both military and civilian, so as to engender greater confidence in the ability of operations personnel to make independent decisions. It should be the basic policy to assign persons to specific missions abroad, not on the basis of seniority, rotation, or personal preference, but on the basis of competence to perform the task at hand. Compe-

tence, in this sense, should include not only professional ability and experience, but a thorough knowledge of the foreign country's history, culture, political system and economic structure, and where possible, familiarity with the native language as well.

It was observed that in some places personnel were not fully qualified by this definition, and that in others there appeared to be too many persons on the staff. A desirable objective would be fewer persons of greater competence, and the agencies involved in the foreign aid program should be strongly encouraged to review and revise their personnel policies to that end.

A particularly weak spot in current personnel practices is the system of rotation which takes a man out of Korea, for example, after 18 months of service there. This is tenure of insufficient length to permit the individual to perform with maximum effectiveness. He is of less than full usefulness for the first few months because of his unfamiliarity with local conditions, and is of diminishing usefulness during the last few months as he looks forward to a transfer to some other station. This is not good administration. It works against continuity of thought and action. It encourages one type of individual to hesitate to take initiative because he probably will not be on the scene to receive credit for any success. For individuals of another type, it serves as a sort of curious security against being on hand to be blamed if things go wrong.

There is every inclination to be sympathetic with those who are assigned to serve at so-called hardship posts. But we are engaged in an undeclared war for national survival, and the national interest must be put ahead of individual comfort and convenience. Some of our dedicated people are ready and willing to spend longer periods in such posts but are prevented from doing so by fixed and arbitrary overall policies.

6. It was observed that some undesirable friction and lost motion result from the intermingling of funds for military assistance and defense support with those intended to support economic aid and technical assistance. While there is a high degree of cooperation between military and civilian personnel, it is only natural for each group to seek the ultimate in support for the programs for which it is responsible, and to begrudge funds going to the other's program at what it fears may be at the expense of its own work. It is strongly recommended that necessary legislative and administrative measures be taken to keep funds allocated for military and for civilian programs definitely separated.

7. The employment by United States agencies of private firms to consult on specific industrial and economic problems was noted with approval in Taiwan. The results obtained deserve commendation and suggest that consideration be given to a more general employment of this method of procuring technical advice and guidance.

8. Incisive studies of the development of economic institutions and potentials of Korea, Taiwan, and the Philippines need to be made. Although many factual reports are available, most of them lack cultural and historical depth. In numerous instances the success of programs is being judged in terms of the attainment of project deadlines, with little regard for inconsistencies between our own activities and the recipient country's history and aspirations.

In some cases, even important factual data are not available. For example, much remains to be learned regarding the potential mineral

resources of Korea. The geological survey which has been initiated needs to be pushed vigorously.

It is recommended that the development of other comprehensive economic analyses, preferably by nongovernmental personnel, be undertaken without further delay.

9. Careful observation and searching questions put to American military commanders produced ample evidence that the United States is well advised in its policy of assisting in building up strong military forces in the Philippines, Taiwan, and Korea. Our commanders were unanimous in the opinion that, given proper training and suitable equipment, nationals of these countries make excellent soldiers, sailors, and airmen.

This policy is consonant with our overall policy of strengthening the defensive power of these allies, and should be continued to the point of making them as self-reliant, militarily, as possible.

There is one advantage that is not readily apparent. In countries of relatively low educational opportunity, the training received by these men during their military service makes them not only better citizens but more useful and productive members of the labor force when they return to civilian life. It is far less expensive to train and equip these nations to defend themselves than it would be to train and equip an equivalent number of Americans to provide for their defense. However, it should be emphasized that we should not permit any fallacious theories of economy to lead us to skimp on the quality of the training provided for foreign nationals or on the quality or quantity of equipment made available to them.

10. Operations under Public Law 480, under which surplus agricultural products are sold to these countries, are open to criticism. Some of our actions are subject to the interpretation abroad that we are more interested in getting rid of the surpluses than we are in improving the health or the economy of the people. In at least one case, we may be creating a taste for a product commonly used in the United States but seldom in Asia, one which the country concerned would have great difficulty in providing for its people if the current supply were to dry up. The effects of Public Law 480 on our overall program and our relationships with foreign peoples should be reexamined by Congress.

11. It is strongly recommended that increasing emphasis be placed on efforts to induce these countries to revise their attitudes toward education and the breadth of educational opportunity for their people. Traditionally, education in the Orient has been for a small elite; knowledge has been worshiped for its own sake, not for what it can do, when widespread, to benefit the people as a whole. America offers the world's foremost example of how the right kind of education for the great majority of a nation's people can produce almost magical effects in the form of a more stable political and social system and tremendous economic benefits best expressed in terms of a rising standard of living.

This is a point on which the Far East is not as yet fully convinced, even though some progress is being made. We should do what we can to persuade our friends in that part of the world that one of their best hopes for the future lies in making education more readily available to all of their people, and that they would be well advised to apply the lever of widespread knowledge to lift the tremendous social and economic burdens they currently bear.

12. There is considerable sentiment among American official personnel in the Far East for a plan under which those selected for technical training would be sent to a third country, not to the United States, for their specialized educations. This plan has the advantage of reducing travel time and expense, and the merit of having Asians teach Asians, and Asians learn from Asians. But it has a serious weakness in that not all of the countries to which these people would be sent at American expense have the philosophy that education should be used to serve the needs of people, rather than the esoteric interests of the intellectual elite. Too, this procedure would deny the opportunity to acquire sufficient competence in the use of English to enable the trainees to keep apace of technical advances through reading the literature in English of their fields of interest, and through correspondence with Americans sharing the same interests.

In this same connection, no enthusiasm was engendered by the proposal that American foreign aid dollars might better be spent to employ technicians of other nations as advisers because they can be hired more cheaply than Americans. It would seem that if American prestige and security are at stake, then Americans should exert the dominant influence in all programs of technical assistance being paid for with American dollars.

13. A special word of commendation is due American colleges and universities for their cooperation in the technical assistance programs. They are reservoirs of professional and technical knowledge of the kinds most urgently required, and it is to their great credit that they have recognized and accepted their responsibilities to make this knowledge available in the national interest.

It is strongly recommended that participation of our colleges and universities in these programs be continued, and that Washington administrative rulings and procedures which are hindering their work and thereby dampening their enthusiasm and usefulness be simplified and modified speedily.

14. It was observed with disappointment that we are not highly successful in explaining to foreign nationals our reasons for undertaking our foreign aid programs, and what we hope will derive as benefits for the Far East as well as for the United States and the advantages to be gained by full cooperation.

The opposite side of the coin is that the people of our own country have a relatively poor understanding of the people with whom we are allied, of what they have already done to help stem the flow of communism, and of what their capabilities are in the world struggle for peace and freedom. The prevailing public opinion in America on some points seems to be at variance with the facts as they were found on this survey. This is an area of activity to which the Congress might well devote its attention in the interest of promoting mutual good will and understanding among our own people and those who stand with us on the side of human justice, dignity, and freedom.

II. JAPAN

Industrially speaking, Japan is so much more highly developed than other countries in the Far East that she occupies a unique position relative to United States policy in that area.

That there should be some anti-American feeling in Japan is inevitable. It is impossible in any country that has been occupied by a foreign power to avoid looking upon that power as "the conqueror." This feeling will prevail, in greater or less degree, as long as large numbers of American military personnel remain in the country.

More significant than anti-Americanism is the large reservoir of good will which we enjoy among the Japanese, due to the fact that when we occupied their country we did not pillage and plunder. Instead, we gave them food when they needed it and helped them develop their economy.

The more thoughtful Japanese are aware that the military assistance which we are giving Japan is contributing substantially to the present prosperity of the country. At least 100,000 Japanese are given direct employment by our military expenditures and this financial contribution to the Japanese economy is substantial.

A. UNITED STATES SECURITY INTERESTS

Specifically, it is essential to the United States (1) that Japan be militarily secure, (2) that the Japanese economy be strong, (3) that the Japanese Government remain stable, and (4) that Japan be able to defend herself against internal subversion.

Some Americans are critical of Japan because she is spending less than the equivalent of 2 percent of her gross national product for military purposes. They urge that she change her constitution, which at the present time forbids rearmament, in order to enable her to create large and strong military forces.

There is no question about the potential military capacity of Japan. She is the one country in the Far East that has sufficient economic capacity to develop substantial military strength. It is important to note, however, that while military strength for purposes of self-defense as part of an overall defense plan is highly desirable, the creation of a powerful aggressive military machine would be another matter.

B. ECONOMIC CHARACTERISTICS

At the present time Japan is prosperous. Per capita consumption of food and clothing is higher than it was before the war, exports have increased phenomenally, and her balance of payments position is favorable. This prosperity is due: (1) to Japan's own efforts in balancing her budget and in controlling inflation; (2) to the high degree of industrial activity in the United States and Western Europe; (3) to the fact that Japan spends only a small proportion of her national budget for military purposes; and (4) to record rice crops. It is not explained by abundance of resources, for she is poor in natural resources and there is little land that can be used for agricultural purposes that is not already being farmed intensively. The ratio of population to land is high and is increasing.

Fundamentally, the economy of Japan is in a precarious position. Her principal resource is the skill and ingenuity of her people. She is particularly sensitive to economic conditions in other countries upon

whom she is dependent for raw materials and markets. She is, indeed, the "Great Britain of the Orient."

One of Japan's most fundamental economic needs is greater trade opportunity. If she is to survive with anything like a tolerable standard of living, she must export. Southeast Asia, her "natural market," does not have the purchasing power to buy the goods which she must sell. The only other possibilities are to trade with the West or with Red China and Soviet Russia. Thus far, she has cooperated with the West in refraining from expanding her trade with the Communist bloc.

The Japanese are critical of the United States and Western European countries because, while they are persuading her not to trade with Red China, some of them are themselves trading via the back door. The fact that even if there were no trade controls, Japan's trade with Red China would not be large, does not dispel the feeling that she is in a sort of economic straitjacket as far as foreign trade is concerned.

Imports from the United States into Japan are larger than Japan's exports to the United States. In 1955, the former amounted to \$643 million and the latter to \$432 million, a difference of \$211 million.

The Japanese are not impressed by our pronouncements in general terms in favor of a liberal foreign trade policy. They are more impressed by the antipathy prevailing in the United States and European countries against Japanese exports.

C. UNITED STATES AID PROGRAM

The approximately \$3 million that we are presently spending on economic assistance in Japan is being spent for the most part on the productivity program, which was initiated late in 1954. Under it Japanese leaders are brought to the United States for the purpose of studying American production techniques. In return we have sent a number of industrial specialists to Japan. Over 30 such productivity teams have participated thus far. It was surprising to be told repeatedly by Japanese industrialists that their ability to compete in world markets requires greater reliance upon American productivity and management techniques.

For the most part, the Japanese are enthusiastic over the productivity program. They have contributed substantially to it, covering about 10 percent of its cost last year. They plan to contribute a considerably larger share this year.

One of the valuable byproducts of the program is that it enables the Japanese to become better acquainted with the United States and makes friends for us in Japan. Its critics are the Communists who try their best to identify it as colonialism.

There is ample justification for continuing this economic aid.

D. CONCLUSIONS AND RECOMMENDATIONS

One does not have to remain in Japan for any great length of time before hearing criticism of the United States because of the so-called Okinawa problem. Okinawa is of vital importance to the United States militarily and all problems concerning it, whether military or civilian, need to be solved before they fester and become major issues.

Emotionally, the Japanese still regard Okinawa as a part of Japan. Our critics make much of the fact that it is still under military, as opposed to civilian, control. The presence of our military forces in Okinawa unavoidably subjects us to enemy propaganda to the effect that we are one of the few colonial powers left in Asia.

Because of the military importance of the area, 2 days were spent in Okinawa examining the situation at first hand.

Okinawa, with approximately 600,000 Okinawans cramped into a small area made even smaller by our use of land for airfields and other military installations, faces a serious land problem.

The issue of reversion of Okinawa to Japan has been magnified by the poor timing of the recent so-called Price report, suggesting, as Okinawans themselves had suggested several years previously, that the land be purchased, rather than leased, by the United States.

This report, by a congressional committee, was issued while Japanese elections were being held and played directly into the hands of critics of the United States. Some Okinawans are now demanding what amount to life annuities in exchange for their land.

It is alarming that in Okinawa, the one place in the Pacific where the United States is in undisputed control, left wing activity is more prevalent than in any of the other countries visited. Only a few weeks ago the city of Naha elected a mayor with Communist leanings.

To aggravate the situation, the United States Government has three scales of pay on the island. Americans receive the highest pay, Filipinos next highest, and native Okinawans the lowest of all. Such an un-American way of compensating labor cannot be justified. Inevitably, the Okinawans are made to feel that they are third-class citizens. It violates the fundamental American principle of equal pay for equal work. This situation should be corrected.

We should make it clear, once and for all, that Okinawa is of vital importance to us and that we intend to stay there. The land question needs to be settled quickly and definitely. Unless this is done we shall continue to hand an issue to the Communists on a silver platter and to supply Japanese politicians with ready-made anti-American propaganda.

Until now we have been content to let our military make overall policy decisions regarding Okinawa. The time has arrived when civilian judgments might be of greater value than military in determining matters of civilian policy for Okinawa.

The United States, working in cooperation with other countries of the free world, should do all in its power to make it possible for Japan to sell her merchandise in the world's markets. This does not mean that our markets, and those of other countries of the West, should be thrown open to all Japanese goods in unlimited quantities. Nor does it mean that we must resort to a quota system. But more original and tolerant thinking on our part than we have manifested up to now is necessary if we are to evolve a formula that will afford market opportunities to Japan and at the same time diffuse the competitive effects over our entire economy instead of allowing a few vulnerable domestic industries such as textiles and pottery to bear the full competitive impact. In Japan, direct assistance is less important than these other aspects of our relations with that country.

III. KOREA

Korea presents an especially critical problem to the United States. What we do, or fail to do there, militarily, politically, and economically, will have tremendous effect throughout Asia and the free world.

Prior to Japanese occupation, the Korean peninsula was a single nation, possessed of a proud history extending over many centuries. The Korean culture contributed much to the cultures of China and Japan. Early in the 20th century, the nation was taken over by the Japanese who kept it under their control until the end of World War II. The Koreans resisted Japan in many ways and never acknowledged that they were a permanent part of the Japanese Empire.

Prior to the period of Japanese domination, American missionaries had established the beginnings of strong Christian groups and had founded schools and colleges which, although repressed during the period of Japanese domination, continued to operate. The presence of American missions, schools, and colleges identified America and Americans in the eyes of many Koreans as their best friends.

At the end of the war in 1945, the Soviet Union and the United States agreed that the former would assume responsibility for evacuating the Japanese from Korea north of the 38th parallel, and that the latter would assume that responsibility south of the line.

From what we know now, it had long been the desire of Communist Russia to control the industrial potential of northern Korea. So, what had appeared at the time to be a logical and temporary division of responsibility actually permitted the consummation of a long-time Soviet desire, and the Communists dug in on their side of the line.

We moved our troops out of Korea soon after the establishment of the Republic of Korea and, in June 1950, the Communists moved in. The result was the Korean war, in which 32,000 young Americans died, and many times that number were wounded or injured.

After we and our allies succeeded in pushing the aggressors back to the Yalu River, intervention by the Chinese Communists changed the complexion of the conflict and eventually resulted in an armistice and the establishment of a truce line approximating the 38th parallel.

South Koreans may be divided on some issues, but there is no division in their recognition of communism for what it is and in their dedication to resisting it.

They know that without assistance from the United States they would be in an impossible situation. Directly north of the demarcation zone is a Communist army which is better equipped than they in terms of airfields, air support, and modern military equipment. They know that their own military forces are dependent upon American air support in faraway Japan or Okinawa. They feel that they are as competent as the Communists to use modern aircraft and other military weapons if only they had them to use.

Koreans feel certain that as long as American troops are present in Korea they will not be abandoned to the Communists should the Communists decide to move.

They know that without United States aid it will not be possible for them to establish a viable civilian economy. They are worried about statements that are made from time to time by responsible persons in the United States regarding the possibility of terminating, or drastically curtailing, United States aid.

A. UNITED STATES SECURITY INTERESTS

There still exists in Korea a state of suspended war, with a line of demarcation traversing the peninsula at approximately the 38th parallel.

The United Nations forces have continued to comply with the terms of the armistice agreement, which specifies that old equipment may be replaced only by equipment of the same type. In consequence, we now have there an assortment of largely obsolete World War II type military weapons. We have not added to the number of airfields and we have replaced wornout aircraft with aircraft of the type in vogue during the Korean war.

The Communists, however, have openly, flagrantly, and continuously violated the terms of the armistice agreement. They have built new airfields and have moved into North Korea large numbers of modern jet aircraft and other modern military equipment. They have actually fortified some of the positions within the neutral zone.

B. POLITICAL CHARACTERISTICS

President Rhee effectively holds the reins of power and personally makes most of the Government's decisions. At times this has been advantageous to the United States, for he has been able to hold his government together on a strongly anti-Communist basis.

On the other hand, his extreme anti-Japanese attitude has made difficult the development of more satisfactory Korean-Japanese relationships.

Since there is an acute shortage of experienced people to manage its affairs, the Government is relatively inefficient and often indecisive. Government officials are grossly underpaid with resulting temptations for graft and corruption.

C. ECONOMIC CHARACTERISTICS

The military program has an important relation to the economic situation of the country. Over 50 percent of the national Republic of Korea budget is for military purposes.

Reduction of military expenditures, if that ever becomes feasible, would reduce governmental expenditures and make additional resources, including mechanical and other skills, available for developmental purposes.

The release of skilled manpower from the armed forces would assist the development of the civilian economy. On the other hand, the release of unskilled manpower would aggravate the already serious unemployment and underemployment problem.

As long as the country is divided, and as long as it is necessary that it devote so large a share of its national income to military purposes, it is an open question as to how long it will be before Korea can become economically self-supporting.

The net balance-of-payments deficit, which exceeded \$300 million in 1956, can be narrowed by reducing the need for imports and by encouraging exports. Several major import-saving projects are now under way which can reduce Korea's import requirements significantly in a few years. Efforts are also being made to increase exports, although this is difficult owing to the limited resources of the country.

and to the difficulty of developing markets abroad. Rice, minerals, marine products, and handicrafts are most promising, but it will be several years before exports can be expanded appreciably.

Political differences with Japan are an impediment to trade.

The hwan currency is overvalued in terms of dollars, which places a premium upon imports, discourages exports, and aggravates the impediments to economic development. At present the exchange rate is being held at 500 hwan to 1 United States dollar. A more realistic rate would be between 650 and 800 hwan to \$1.

There has been virtually no foreign investment in Korea since the end of World War II. The recent signing of the Treaty of Friendship, Commerce, and Navigation with the United States and the negotiation of an investment guaranty agreement may remove some of the obstacles to foreign investment.

The Government has indicated that it intends to enact a foreign investment law which it is hoped will provide some incentive for foreign enterprises to invest in the country. Even after these legal steps are completed, however, many impediments to foreign investment will remain, particularly military and political instability and the limited resources and purchasing power of the country.

Overall industrial production today in South Korea exceeds the pre-Korean war level. Agricultural production has increased slightly since 1949, but is still considerably lower than in the peak year, 1938. The rate of growth of total national output continues to be slow.

D. UNITED STATES AID PROGRAMS

The objectives of our aid programs in Korea are (1) to strengthen the Korean armed forces, (2) to make it possible for the Korean Government to assume an increasing share of the country's defense costs, (3) to increase the capacity of Korea to support itself economically, (4) to assist in the attaining of economic stability, and (5) to provide training for Korean Government administrative and technical personnel.

After the conclusion of the armistice agreement in 1953, the United Nations and later the United States embarked upon a massive program of relief and reconstruction in South Korea. As a consequence, most commercial, transportation, and communications facilities have been repaired or rebuilt. This is not true of housing, which continues to be in critically short supply.

For all practical purposes, we have completed the relief and reconstruction phase of our aid program and are now entering the more difficult phase of economic development. Progress is being made in some fields, particularly coal, electric power, transportation, textiles, flour milling, and the manufacture of a variety of products for local consumption.

Korea now has the second largest army in the free world, numbering over 700,000 men. It is heavily dependent upon our aid program for its support and maintenance.

The American people should be aware that to maintain an American army in Korea, equivalent in terms of manpower to that being maintained there now by the Republic of Korea, with American support, would cost between 6 and 10 times as much as at present. Koreans

make good soldiers and when well trained and equipped constitute an effective fighting force.

On the economic side, we are spending approximately \$300 million a year in Korea. In fiscal 1956 approximately \$100 million of economic aid was for project assistance and \$185 million for nonproject assistance. The bulk of the project assistance is in the fields of industry, mining, and transportation.

Even though development progress is slow, it seems to be moving in the right direction.

E. EFFECTIVENESS OF THE AID PROGRAMS

It is evident that the United States has little alternative but to maintain strong military forces in Korea. To remove this military strength would rob the Korean people of hope, as well as destroy the hope of other peoples in Asia who are determined to resist communism.

We are not showing ordinary intelligence, however, if in continuing to support a great Korean military organization we do not provide the most modern equipment and facilities. The decision should be made at once to equip our own forces, and those of the Republic of Korea, with the most modern equipment and weapons of war, including adequate modern jet air force support.

In the event of any resumption of the Korean war, who will assume responsibility for explaining to American families whose sons will be needlessly lost because of our failure to supply modern equipment and support?

It is strongly urged that we not be "penny wise and pound foolish" in training the soldiers of the Republic of Korea. If it is true that only a fraction of the ammunition normally required for training purposes is now available to the Republic of Korea Army, with the result that their artillery sections are not being adequately trained, then failure on our part to provide sufficient funds, sufficient equipment, sufficient ammunition, and sufficient supplies to train an adequate army may easily result in reliance on our part upon a military effectiveness that may not be there when needed.

Our programs, both military and civilian, would be more effective in Korea if the staff members responsible for their execution were on the job for longer periods of time. At the present time the tour of duty for civilian personnel in Korea is only 18 months. Korea is designated as a hardship post and, with few exceptions, personnel are not permitted to have their families with them. It is felt that a longer tour with accompanying families would be in our best interest.

One of the greatest needs of the Korean people is the acquisition of management skill, as well as technical know-how. The Koreans are an intelligent and adaptable people. They need to have not only technical know-how, but they need to know how to apply it. This does not mean that there should be any lessening of encouragement for sending bright young Koreans to American universities for study. There is, however, a greater need for other Koreans, or maybe the same Koreans, after they have completed their academic training, to have practical experience in American operations. Particularly, they need to be exposed to good on-the-job management experience.

F. CONCLUSIONS AND RECOMMENDATIONS

1. Every effort should be made, short of war, to bring about the reunification of North and South Korea at the earliest practicable moment. Military and economic problems become more soluble in a united Korea than they are in half of a divided nation. If Korea is to remain permanently divided, the cost to the United States for United States forces in Korea, for the maintenance of a great Republic of Korea military organization, and for the development of a viable industrial economy will remain very high for many years.

2. It is urged, in view of the violation by the Soviet bloc of the terms of the armistice agreement, that we ignore the prohibition in the armistice agreement which prevents us from sending to Korea modern weapons and modern air force units in order to place our forces on a par with the opposing forces.

3. It is urged that the Republic of Korea Army be maintained adequately with such supplies, equipment, ammunition, et cetera, as are required for effective training as a combat force.

4. The highest possible priority should be given to an adequate economic program in order to encourage progress toward the development of a viable civilian economy in the Republic of Korea.

If this program is to succeed, first consideration should be given to the maintenance of dedicated direction, both in the Embassy and in the Office of Economic Cooperation. Our program in Korea has suffered through the frequent turnover of personnel. Steps should be taken to induce adequately trained persons to remain on the job longer than 18 months. This means that genuine efforts must be made to provide adequate housing and other living accommodations for the families of staff members.

5. It is evident that electric powerplants, cement plants, fertilizer plants, and other large operations are needed, but the construction of the physical properties is not sufficient. Korean personnel must be trained to operate them and the training should be proceeding while construction is under way. This would make it possible for Koreans to take over actual operations as soon as possible after the projects are completed.

6. In Korea the best source for "know-how" and management experience is in successful small businesses. Since there is almost no investment capital in the country and since there is not now a climate likely to attract foreign capital except in a few key areas, it is urged that our aid program encourage small and independent business operations.

7. A comprehensive geological survey of the resources of Korea should be given high priority.

8. Determination of electric power rates, freight rates, and the price of coal by legislative bodies leaves something to be desired. The Koreans should be urged to establish a public utility commission or commissions to free determination of rates from political influences.

9. The Korean foreign exchange rate is being kept artificially high. As long as this continues, the effectiveness of much of our economic aid is minimized. Pressure should be exerted upon the Korean Government to maintain a more realistic foreign exchange rate.

The people and the Government of the United States should recognize that in Korea and in the Koreans there is a nation and a people

that look in only one direction for leadership and assistance, and that is to the United States. They place their faith and their hope in the future in our hands, insisting only that they not be surrendered to the Communists.

Our military commanders have confidence in the Koreans as soldiers, sailors, airmen, and marines, given the proper training and the proper equipment.

It is evident that with training and encouragement, they can operate machines and industries and do all the other things that are required to operate a free industrial society.

The Korean problem is peculiarly an American problem. From every standpoint—military, economic, and humanitarian—we should work in cooperation with them, assisting them to the degree required to make it possible for them to help themselves develop a society that will assure their people freedom, hope, and opportunity.

This does not mean that we must go on forever expending hundreds of millions of dollars in Korea. But we should spend what is required and that will be in substantial amounts for some years to come.

IV. TAIWAN (FORMOSA)

Taiwan is one of the key links in our chain of alliances and defenses in the western Pacific. Since 1949, when the Communists seized control of the mainland, it has been the seat of the Chinese Nationalist Government.

Our intention from the start in Taiwan has been to prevent it from being taken over by the Communists. This has been accomplished.

Mainland China has disappeared behind the Iron Curtain, but there still remains in Taiwan, on the side of the free world, a sizable territory with a large Chinese population (over 10 million) under the control of the Government of Nationalist China and with a strong military force buoyed up by frequently repeated Chinese declarations of intention to liberate their homeland across the Straits of Formosa. Approximately 80 percent of the present population of Taiwan were born there.

In December 1954, a mutual defense treaty was signed by the United States and free China in which there was agreement upon a military program to serve the best interests of both Taiwan and the United States.

Free China is a better military and economic risk than Americans have been led to believe by the preponderance of publicity. Our military feel that the Chinese Nationalists are an effective military force. They have a burning desire to return to the mainland. They, as is the population as a whole, are vigorously anti-Communist.

A. UNITED STATES SECURITY INTERESTS

Taiwan is a vital link in the frontline defense of the free world against the Communist bloc in the Far East.

It is desirable for us to support free China militarily and to do everything feasible to stimulate its economic development in order to give effectiveness to that support.

B. UNITED STATES ECONOMIC INTERESTS

The economy of Taiwan would be able to stand on its own feet if it did not have to maintain a large military establishment. It will not be able to do so, however, as long as the military burden is as large as it is now. It is in our own self-interest, therefore, not only to support the Taiwan economy as its present level, but also to assist it in growing and in developing a greater degree of viability.

The more successful our economic programs are, the greater will be the share of military costs that Taiwan will be able to bear, and the smaller will be the demands upon us for direct military assistance.

C. OBJECTIVES OF FREE CHINA

The objectives of the foreign policy of Nationalist China appear to be: (1) to exploit whatever opportunities may arise to weaken the Chinese Communist regime and to create a situation favorable to the return of the Government of the Republic of China to the mainland, (2) to preserve the identity and integrity of the Government of the Republic of China through the maintenance of its position in international affairs in the United Nations and other international organizations, (3) to secure the largest possible support from the United States, (4) to retain the loyalty of the Chinese people, not only in the overseas Chinese communities of Southeast Asia, but also on the mainland, and (5) to heighten among the non-Communist nations of Asia opposition to Communist aggression and support for its own position vis-a-vis the Chinese Communists.

The situation in Hungary has stimulated and intensified the desire of the free Chinese to return to the mainland as victors over communism.

D. ECONOMIC CHARACTERISTICS

Approximately one-half of the population of Taiwan live on farms. As a result of the land-reform movement, farm tenancy at the end of 1955 had been reduced by 21 percent so that the area under tenancy now accounts for only 16 percent of the total arable land on the island.

Although the plane of living for most people is low by western standards, there is not much abject poverty on Taiwan. If it were not for the necessity of carrying such a huge military burden, Taiwan could be self-supporting.

Development plans rely primarily upon greatly expanded industrial production to provide more employment and better living standards for the rapidly growing population, as well as to improve Taiwan's international payments position.

Although the main island of Taiwan is 100 miles from the mainland, the Chinese who came from the mainland in 1949 brought with them large quantities of transport, manufacturing machinery, and management know-how. This provided a strong foundation for economic development.

In 1955 the industrial sector contributed one-third of the total national domestic product compared with two-thirds contributed by agriculture, although the relative importance of industry in the economy is increasing.

To establish the necessary base for industrialization, electric generating capacity has been increased by 70 percent over the wartime

peak, and substantial additional capacity is being installed and planned. Also, there are plans and programs for improving harbors, railroads, highways, telecommunications, fertilizer plants, shipyards, and manufacturing enterprises.

Private investors, principally overseas Chinese, have expanded the cotton textile industry since 1951 to the point that the island not only is self-sufficient in standard textile lines but also has an export surplus.

Chemical fertilizers, which before the war were imported from northern Korea, are being produced domestically in ever larger amounts. Present plans for expansion contemplate increasing production of fertilizer from 168,000 tons in 1955 to 420,000 tons by 1958.

An affiliate of an American shipbuilding corporation recently signed a 10-year lease for the Keelung shipyards and has announced plans to construct, initially, two 32,500-ton oil tankers.

The industrialization effort is being made largely through Government enterprises. Our advances, therefore, in large measure are through enterprises that are controlled by the Government.

There was a deficit in the international balance of payments of Taiwan in 1955 of approximately \$70 million (United States) with exports amounting to approximately \$123 million and imports at \$193 million. Because of smaller rice stocks it is expected that the deficit for 1956 will be slightly larger.

Many Chinese are not attracted to the corporate method of doing business. They prefer the old family method, apparently feeling that they can trust members of their families more than they can trust outsiders.

E. UNITED STATES AID PROGRAMS

The objectives of the United States economic aid program in Taiwan are to increase productivity in agriculture and industry, with the ultimate goal of creating a viable economy capable of supplying the island's ordinary economic needs.

Over 10 percent of the economic aid given to Taiwan since 1950 has consisted of machinery and equipment for the development of power, industry, and mining.

The Joint Commission on Rural Reconstruction (the JCRR) is doing an excellent job. Local people are taking part in the program. They are enthusiastic about it and, since it is a joint program, it affords no opportunity for criticism of the United States. Particularly impressive is the land-to-the-tiller program. Over 40 percent of the funds expended on this work are contributed by the Joint Commission on Rural Reconstruction, the remainder being provided locally. The Commission makes loans, rather than grants, whenever possible.

Technical cooperation represents a small but significant part of the economic aid program. In fiscal 1957 approximately 4 percent of the \$83 million of International Cooperation Administration programmed aid is scheduled for such activities. The aid includes the services of a team of about 25 engineers from an American engineering company, which has provided much of the technical skill needed in the planning and execution of industrial development.

It also includes the services of over 100 American contract personnel, comprising technicians provided by United States manufacturers of equipment, engineers, consultants, and specialists from such Government agencies as the Bureau of Reclamation and the Forestry Service.

F. EFFECTIVENESS OF THE AID PROGRAMS

There seems to be better planning in Taiwan than in some other areas. The programs have had the advantage of more practical know-how, particularly that contributed by private consulting engineers.

The total volume of industrial production in Taiwan is now much higher than the highest level reached during the period of Japanese rule. Electric power is double the peak production under the Japanese and production of chemical fertilizers has risen fivefold. Production of textiles has risen more than tenfold.

It was disconcerting to find that electric power rates are determined by the legislature, with little direct relationship between rates, costs, and profits. There seems to be little appreciation of the necessity for taking rate-making out of politics by setting up a regulatory commission.

G. CONCLUSIONS AND RECOMMENDATIONS

1. The determination of electric power rates and of coal prices by the legislature, or by politically motivated commissions, is bad. Rate-making and price-fixing should be removed as far as possible from the realm of politics. We urge that the desirability of establishing independent commissions for such purposes be called to the attention of the Chinese Government.

2. Our program for disposal of surplus commodities needs realistic reexamination. To the extent that foodstuffs and other materials are furnished to people who need and want them, the program is good. However, when the program is administered in such a way as to give the impression that certain surplus commodities are being forced upon a country in order to solve our own surplus problem at home, more harm than good results.

3. We must be careful in superimposing our own corporate system of business enterprise upon a country that for many generations has followed a quite different system. The Chinese are at present at least not disposed to favor the corporate system, but prefer their own family system. This is not to say that we should follow the family system in our aid program, but that we must be careful not to ignore it.

4. Fisheries and forestry are in need of development. Increased domestic production of both fish and wood products would assist in solving the balance of payments problem by making it possible to use domestically produced products instead of imports, thereby conserving foreign exchange.

It is important to the United States that Taiwan be kept out of Communist hands, not only because of its strategic importance, but because as "free China" it exerts a strong psychological pull upon the 500 million Chinese under Communist rule and also upon the whole of Southeast Asia where millions of "overseas Chinese" reside.

The free Chinese armed forces represent the strongest anti-Com-

munist military force in Asia, outside of Korea. Assistance to this force is a good military investment. As in Korea, expenditures for military assistance are high but are much less than would be the cost of maintaining American military forces there.

V. THE PHILIPPINES

Throughout the dark days of the war with Japan the vast majority of Filipinos remained faithful to the cause of freedom. Many Americans who were imprisoned by the Japanese were kept alive through the faith and courage of Filipinos, who provided food and other supplies, frequently at the risk of their own lives. In 1946 with the end of the war, the United States voluntarily gave the Philippines their independence, thus honoring a prewar commitment.

There can be no question about the loyal friendship on the part of the vast majority of Filipinos for the American people. This friendship is sometimes obscured by the fact that some self-seeking Filipino politicians succeed in getting on the front of the stage by making it appear that the United States, somehow or other, is negligent in cooperating with the Philippines.

It is important to both the Philippines and the United States that there be understanding between the two countries. Our relations with the Philippines are unique. Whatever happens there, good or bad, redounds to the credit or criticism of the United States.

A. UNITED STATES MILITARY INTERESTS

The Philippines are an integral part of the arc of United States defenses in the Pacific. It is important that the United States have airfields, naval bases, and other military installations in the Philippines ready for immediate use in the event of a military emergency.

The defense of the Philippines, like the defense of Korea and Taiwan, can be considered intelligently only in the light of the military, political, and economic picture in the Pacific area as a whole.

Some Americans have been critical of the Philippine Government for keeping its defense budget so small (about 2 percent of the country's gross national product). The Government, under the leadership of President Magsaysay, puts greater emphasis upon economic development and sound reform measures, and upon the military as an internal defense against communism, than upon a strong military force for external use.

B. UNITED STATES ECONOMIC INTERESTS

The interest of the United States in the economy of the Philippines is a part of its larger, overall defense interest. Almost as great in importance is its interest in maintaining a strong Philippine economy because of the "showcase" position which that economy occupies as a recent ward of the United States.

United States direct private investments in the Philippines amount to over \$200 million and net annual capital inflows have averaged about \$20 million during most recent years. Investments are concentrated largely in agriculture, mining, public utilities, and commercial trading.

C. POLITICAL CHARACTERISTICS

The political situation in the Philippines today is relatively stable. A small number of families either own or control most of the land. They exert great influence upon the political life of the country also, controlling both Houses of the Legislature. The president, whose support is particularly strong in the rural sections of the country, is so popular that many of the measures which he favors have been passed by the Legislature despite the reluctance of many of its members.

Although he is a very popular leader, there have been some serious defections among the politicians with whom he does not always agree.

Communist influence is not great in the Philippines, outside of a few remaining Huks. Even they are more akin to ordinary bandits than they are to Communists per se.

President Magsaysay is the first president of the Philippines to come from the ranks of the "common man," a fact which gives him great personal popularity for, in the popular mind, he is identified with large programs of social reform.

The Filipinos are nationalistic, but their nationalism is built against a background of friendship for the United States.

D. ECONOMIC CHARACTERISTICS

Generally speaking, economic conditions in the Philippines today are favorable, largely due to the efforts of President Magsaysay, who has succeeded in giving hope to the Philippine people.

The potential for economic development in the Philippines is tremendous, and it is to our own interest to do all that we can to assist the Filipinos in realizing that potential.

Over 70 percent of the population of the Philippines are engaged in agriculture, and agricultural products account for over 40 percent of the country's gross national product. Production is heavily concentrated in a relatively few commodities. The economy is not diversified. Rice, meat, fish, and many other products still have to be imported.

Although in a few areas there is a rather serious overpopulation problem, there is sufficient good agricultural land to support a much larger population than at present. The country is rich in mineral and timber resources.

There are many well-educated people in the Philippines, but there is a shortage of experienced scientists, engineers, and top-management leaders.

There is considerable unemployment and underemployment. Since the economy has not been developing rapidly there is difficulty in creating jobs to absorb net additions to the labor force, not to mention absorption of the present backlog of the underemployed.

As in other parts of the Orient, there is a family approach to business, as opposed to the corporate approach characteristic of the West.

Unlike many other countries, the Philippine Government is not pushing industrialization so much as a balanced economic growth.

The Philippine economy is characterized by chronic balance-of-payments difficulties, which, of course, lead to foreign exchange problems. These difficulties arise from the country's basic economic

structure. Lack of diversity in production and the fact that exports consist of only a few products selling in world markets characterized by inelastic demand, together with a pressing need for a wide variety of imports, make for chronic imbalance in the international accounts.

E. UNITED STATES AID PROGRAMS

Military assistance in the Philippines by the United States is considerably lower than that which it is making available in Korea, Taiwan, or Japan; this is a sore point with the Filipinos. Rightly or wrongly, they think that they should be receiving as much aid from us, proportionately, as other countries in the western defense system.

The Filipino military leaders have asked the United States for assistance in building up a military force of some 170,000 men. They want the United States to provide the equipment and support. As President Magsaysay has put it, they are willing to supply the manpower if we will supply the finances.

United States representatives have indicated that we are prepared to take over the cost of the military "hard goods," but are not willing to take over the cost of the "soft goods" and other costs.

Aid on the nonmilitary side is pointed toward three objectives, namely: (1) industrialization, (2) raising living standards, and (3) improving governmental practices.

On the economic side, the first problem is to increase the production of rice. There are many small subsistence farmers, working farms consisting of less than 3 hectares, who are just emerging from the feudal system. Because of a lack of incentive in the way of fair prices, access to credit, et cetera, it has been difficult to get rice to market. Agricultural credit facilities have been provided and now constitute a central part of our aid program.

There is a shortage of commercial fertilizer. Most of that which is available is used for the raising of sugar and pineapple. Little, if any, is used on other crops.

Emphasis is being laid upon rural development as the most important single means of raising living standards. Land reform and development of the extension program of the Department of Agriculture are well under way.

On the industrial development side, attempts are being made to establish new manufacturers, increase the productivity of existing firms, and to assist in industrial financing.

F. PUBLIC HEALTH AND COMMUNITY DEVELOPMENT

There has been a comprehensive reorganization of the public health services. Reports indicate that the health program has been highly successful. Each province has public health personnel working at the barrio (community) level.

Community development work is moving along rapidly. The people in the barrios who are working on this program report to a presidential adviser. There are also community-development councils at various levels.

Another important aspect of the aid program is assistance in the establishment of third-country training programs. Some Americans



in the Philippines believe that better results are obtained when training problems are tackled on the basis of "Asians to Asians," rather than on the basis of "Westerners to Asians."

Over 1,200 Filipinos have been sent overseas, primarily to the United States, for training purposes. Not all of them are students; many of them are people who are already prepared to take advantage of advanced training.

In 1955 more than 200 people from other countries in Asia went to the Philippines for training. It was stated that one of the big advantages of this approach to the problem of development is that it helps eradicate the feeling that the Philippines are still a colony of the United States. The training which we are assisting is primarily technical and vocational. Even with their limited trained manpower resources, the Filipinos have cooperated in this program at their own expense.

G. EFFECTIVENESS OF THE AID PROGRAMS

Our aid program in the Philippines is progressing about as well as can be expected in view of the difficulties inherent in the situation.

Unlike Japan, the Philippines are rich in natural resources. Great strides are being made and, given enough time and patience, we can reasonably expect that the Philippine economy will eventually become fully viable and constitute a strong link in the chain of western defense.

H. CONCLUSIONS AND RECOMMENDATIONS

1. There is urgent need of tax reform. The failure of domestic capital to seek investment in industry is explained in large part by the fact that the present tax system makes it possible for much real wealth to remain untaxed, or to be taxed at very low rates. If real estate were to pay its fair share of the tax burden, capital would tend to find its way into private investment in industry and the country would be more likely to develop.

2. It is questionable whether the criticism that some Americans level at the Filipinos for not spending a larger proportion of their national budget on military defense is altogether logical. Although there is much to be said for inducing the Philippine Government to spend a larger proportion of its budget on military preparedness, the desire on the part of President Magsaysay to put greater emphasis on improving health, roads, education, and economic conditions of the lower income groups deserves commendation.

The Filipinos want to build up their military forces—ground, sea, and air—and are willing to furnish manpower for forces beyond those required for their own defense if the United States will provide the equipment and financial support required to maintain them.

This seems to be an equitable proposal in view of the fact that similar practices are being followed in Korea and Taiwan, and it is recommended that the makers of United States military policy be encouraged to reexamine the position they have taken in the matter.

3. As is true in so many other parts of the Orient, traditional, academic, and professional education is emphasized at the expense of technical and vocational training. For example, Philippine schools

and colleges graduate each year several times as many lawyers as are required. Yet there is a serious shortage of technical skills of all kinds. It is recommended that we do all that we can to induce the schools and universities of the Philippines to reorient their education in the direction of putting more emphasis on education of the kind that stresses "education for the service of people" and a little less emphasis on the worship of "education for its own sake only."

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